

RDT Remarks at Norwood DPH/AG Hearing June 16, 2010

Hello and thank you all for coming.

I am Ralph de la Torre, the President and CEO of Caritas Christi Health Care. I am delighted to be here tonight as we solicit your input and feedback on a transaction that will provide substantial immediate and long term benefits to all members of the Norwood Community.

Caritas Christi is a system of six hospitals in Eastern Massachusetts including Norwood Hospital. Our hospitals not only provide critical care to our communities but they also serve as major economic engines. As a system, Caritas Christi employs over 12,000 full time employees making us approximately the 10th largest employer in the Commonwealth. In Norwood alone we employ 1,600 full time employees.

We come here tonight eager to hear opinions from the Norwood community on an agreement by Steward Health Care System LLC, to acquire Caritas Christi. This transaction with Steward Health Care, a portfolio company of Cerberus Capital Management, can secure the future of our system. Your input will help guide us in delivering to your community, to our community, a clear vision. We are joined tonight by representatives of Steward, Lisa Gray, who will also say a few words. For the past five years, Caritas has been searching for a financial sponsor to stabilize our system and lay the foundation for continued growth and service to our communities. We strongly feel that the future of health care in Massachusetts lies in a robust, integrated, community based health care system. Massachusetts has long suffered by the immigration of basic health care. This has not only placed a significant cost burden on our state, but also economically disadvantaged our communities. We are here to reverse that tide. We realize that our patients, our families, have a choice and that it is our responsibility to provide facilities, personnel, and convenience that are second to none.

Caritas, however, faces significant challenges. Our physical plants are among the oldest of any hospital system in the state; investments in new technology have been lacking; the pension obligation is enormous, seriously under funded, and has no federal insurance backstop; and our debt service is draining our operating funds. In order to simply meet debt obligations and pension obligations we would need approximately \$65 million a year of cash. These hurdles compounded by an erratic and declining stock market has made it impossible to fulfill our mission and vision without a partner. In short, we need capital to be able to continue.

In the two years preceding my arrival, and in the two years subsequent, we have aggressively sought a way of recapitalizing our system. We explored affiliations and acquisition by non-profit entities, both Catholic and non Catholic, by for-profit hospital companies, and by direct private equity institutions. After a competitive review of some of the leading private equity firms in the country, we selected Cerberus Capital Management because they shared our vision of world class, community-based health care. They are committed to building a low cost, high quality community based Accountable Care Organization and maintaining the company as a Massachusetts based

operation.

Steward Health Care will commit between \$830 - \$850 million to acquire Caritas. Of this, \$116 million is being immediately spent for much needed and overdue capital improvements: new operating rooms, cardiac catheterization labs, new emergency departments, new radiation therapy centers and good old fashioned infrastructure like roofs and boilers. We have held six groundbreakings in the past month to jump start these projects which will produce up to 4,000 new jobs for Massachusetts.

Here at Norwood Hospital we recently broke ground to build a new 7,000 square foot Cardiac Catheterization lab. The cost of this project is \$7 million. Further upgrades, like private rooms, will follow shortly.

In addition to these immediate construction projects, this transaction will allow us to pay off all our outstanding debt -approximately \$230 million and free up over \$40 million in annual cash flow.

In addition to the massive construction initiative and to the repayment of our debt, this transaction allows us to fulfill our obligation to our current and past employees. Caritas has nearly 13,000 pensioners. This transaction will fully guarantee the pension payments of those employees who have given so much to our system. Since our pension is a non-electing church plan and terribly under funded, without this investment our pension would likely default, leaving current and future pensioners at risk.

In summary, the initial Steward commitment guarantees and secures our pension, eliminates our debt, and begins a massive construction effort aimed at revitalizing our system and our communities.

In addition, Steward has agreed to preserve our identity and to embrace our vision. Steward has agreed to embrace our charity care policies and to continue to fund our pastoral care and community benefits. This represents an annual commitment system-wide of over \$67 million. In Norwood that means we will continue to invest almost \$ 8 million in free care and community benefits; programs such as our partnership with the local YMCA, our anti-smoking outreach in Junior High Schools and so forth. In fact, one of the reasons we are soliciting your input at this hearing is to hear directly what community benefits you find most appropriate and to hear your views on the way to use this money to best serve the community in Norwood.

In addition, to ensure that the community is fully represented in the allocation of these benefits, each hospital will retain their local boards of Trustees.

Furthermore, as part of our identity, our Catholic heritage and mission will be perpetuated. I have had many meetings with Cardinal Sean and the archdiocese and we have entered into a Stewardship agreement that perpetuates our Catholic identity and mission. This is a bedrock of our culture and it will not change. These beliefs not only shape our views on charity care but encompass our appreciation of social justice and specifically their embodiment in labor relations.

A commitment to past and present obligations, however, is not enough. Through this transaction Steward is investing in the future of our communities and in the future of Massachusetts. We believe that in order to fulfill our mission of providing high quality, low cost health care to everyone, a new model is needed, the Caritas model, the Steward model. We believe in a regional accountable care organization that is community based. To achieve this vision, we need to embrace payment reform, to optimize quality and to expand community facilities and the care they provide. Towards this end, this transaction brings a Steward commitment for another \$400 million in capital investments, locally, in our communities. This will ensure that community based care thrives in Massachusetts; bringing not only great care but a solid employment base to our communities, communities like Norwood.

Securing pension, paying debt, revitalizing our facilities, investing in our community benefits, investing in our future, are all admirable, all essential. But being good citizens means commitment to pay taxes wherever possible. In our case it is more than possible, it is a reality. Caritas will, for the first time, pay state and local taxes. Over the next 5 years we estimate to pay approximately \$100 million in new taxes to the state and local communities. In an era of painful belt tightening and hard municipal choices, new tax revenue could be a godsend.

Norwood Hospital and Caritas have a proud tradition of providing world class health care to our community members where they live. This transaction not only ensures but expands upon this commitment. Just as important as our commitment to health care, however, is our commitment to Norwood. This transaction helps ensure the livelihood of this community. It ensures the continuity of our pension, expands the municipal revenue base, provides for the stability and growth of our workforce, and it provides a real stimulus when our state needs it most. For all of these reasons, I am happy to welcome Steward health care into our community and into our family.